[*] An asterisk appears where sensitive information has been removed in accordance with the *Access to Information Act* and *Privacy Act*.

PRIVY COUNCIL OFFICE

Review of PCO's Performance Management Framework for Employees

Audit and Evaluation Division

Final Report

January 20, 2017

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Acronyms Used in this Report

PMP	Performance Management Program
PSPM App	Public Servants Performance Management Application
HR	Human Resources
HRAC	Human Resources Advisory Committee
PCO	Privy Council Office
TBS	Treasury Board Secretariat
ToR	Terms of Reference

1.0 Introduction

The Treasury Board Secretariat (TBS) *Directive on Performance Management* (the *Directive*) which came into force on April 1, 2014 is a key enabler in building Canadians' trust in and satisfaction with the federal government. A high-performing public service is built on employee engagement, a culture of excellence, demonstrated leadership, and a strong workplace and workforce. A highly engaged, healthy, productive and effective workforce is cultivated through innovation, respect, communication and recognition, and should result in improved productivity, superior performance and excellent service to Canadians.

Performance Management encompasses activities that inform employees about what they are expected to achieve at work and how they are expected to achieve it. It is an ongoing two-way communication process between managers and employees that ensure employees get the direction, coaching, and developmental opportunities to continually improve performance, and that managers have the opportunity to provide performance feedback with the view of better achieving organizational objectives. These activities include defining performance expectations in terms of work objectives and expected behaviors, providing feedback, supporting employee learning and development, and documenting performance in the employee's performance assessment.

Effective performance management is seen as a continuous process. Regular feedback and support are to be provided to employees as part of an ongoing dialogue about work performance between managers/supervisors and their direct reports.

1.1 Authority

This review of the Privy Council Office (PCO) Performance Management Framework for Employees was approved by the Clerk of the Privy Council as part of PCO's 2015-16 to 2017-18 Risk-Based Audit Plan.

1.2 Objective

The overall objective of the review is to provide assurance on the extent to which PCO has established an effective control framework for meeting the department's obligations under the 2014 TBS *Directive on Performance Management* as it relates to non-EX level PCO employees.

1.3 Scope

The scope of the review included the control framework established by PCO to manage non-EX level employee performance under the 2014 TBS *Directive*, including management oversight of the PCO Performance Management Program (PMP). In addition to PCO's unionized non-EX employees, the small group of non-EX level excluded and unrepresented employees who receive performance pay was retained in-scope. The scope included the performance management process applied during the 2014-15 and 2015-16 fiscal years; the first two (2) fiscal years following the *Directive* coming into force.

The Public Servants Performance Management Application (PSPM App) and its related controls were not assessed as part of this review. The PSPM App supports the consistent collection, secure storage, controlled access to, and reporting on performance management data. It is managed and maintained by the Office of the Chief Human Resource Officer, TBS.

1.4 Review Criteria

To achieve the review objective, both the review team and management agreed on the following five (5) review criteria to establish the baseline expectations about PCO's control framework over the performance management of non-EX employees:

1. Effective oversight bodies are established;
2. The oversight bodies request and receive sufficient, complete, timely and accurate information;
3. Monitoring of policy and program design occurs in a regular and timely manner;
4. Management monitors actual performance against expected results; and
5. Objective and consistently applied criteria for performance pay are documented and followed.

1.5 Approach and Methodology

This review was designed to enable the Chief Audit Executive to provide a review level of assurance on the extent to which PCO has established an effective control framework for meeting the department's obligations under the 2014 TBS *Directive on Performance Management* as it relates to non-EX level PCO employees. An audit level of assurance is not being provided as this is a review and not an audit; a review does not include the extensive data gathering and in-depth substantive testing that are more typically required during an internal audit. As well, the overall review conclusion is based on a comparison of conditions, as they existed at the time, against pre-established criteria that were agreed on with management.

The review was conducted in three phases: planning, examination and reporting. During the review planning phase, the project team conducted interviews with PCO officials, gathered and reviewed relevant documents and conducted a risk assessment to ensure that the review objective and scope were focussed on the areas of greatest risk and significance. The review team identified proposed review criteria to be used for the examination phase of the review, developed a Review Planning Document which presented the results of the planning phase and the proposed review criteria for the examination phase, and then sought and obtained management's concurrence with these review criteria. During the examination phase, the team performed data analysis, reviewed supporting documents and conducted further interviews to obtain sufficient information and review evidence to draw conclusions against the agreed-upon review criteria.

At the conclusion of the examination phase, review findings were prepared and validated with appropriate levels of management. A draft review report was prepared and provided to the Assistant Deputy Minister, Corporate Services Branch for acceptance and for the development of a management action plan to address the review's recommendations (see Section 5.0). At PCO, draft review reports including management action plans are tabled at the PCO Audit Committee for consideration and acceptance, after which they are jointly recommended by the Chief Audit Executive and Chair of the Audit Committee to the Clerk for formal approval. Once formally approved by the Clerk, the Final Review Report that will result from this project will, as required by Treasury Board Policy, be posted on the PCO website subject to the provisions of the *Access to Information Act* and the *Privacy Act*.

2.0 Conclusion

PCO has an effective control framework in place for managing its Performance Management Program and for meeting the majority of the requirements outlined in the Treasury Board Secretariat's 2014 *Directive on Performance Management* as it relates to non-EX level employees. However, opportunities exist to strengthen certain aspects of this framework.

PCO has established a governance structure for managing its PMP – this structure features some of PCO's key governance committees including the PCO Human Resources Advisory Committee (HRAC) which was in place when the 2014 TBS *Directive* came into force, as well as the PCO Executive Committee. Also featured is the PCO Performance Management Review Panel (hereafter referred to as the Review Panel) which was established pursuant to a requirement in the 2014 *Directive*. When the *Directive* came in to force, PCO chose to create its Review Panel as a sub-committee of its pre-existing HRAC – as such, membership of HRAC and the Review Panel are the same.

Collectively, HRAC and the Review Panel are fulfilling the majority of the responsibilities outlined in the *Directive* that relate to PCO's PMP for employees. However, review results revealed that material inconsistencies exist between the *Directive* and the two (2) key PCO documents that are in place to support this governance and oversight framework, and that the Review Panel is not preparing an annual self-assessment report as required by the *Directive,* thus pointing to areas where the Framework can be strengthened.

The following sections detail the review findings and recommendations as well as Management's Response and Action Plan.

3.0 Review Observations and Recommendations

3.1 Governance and Oversight

It was expected that effective oversight bodies have been established and that roles and responsibilities are clear and understood. It was also expected that the oversight bodies are receiving sufficient, complete, timely and accurate information.

As called for in the *Directive*, PCO established its Review Panel – the Department chose to establish this Review Panel as a sub-committee of HRAC. To facilitate this structure, PCO prepared a Terms of Reference (ToR) in April 2014 for the Review Panel (this ToR was amended in September 2015) and supplemented this ToR document with another key governance document entitled the "*Performance Management Program for Employees – Review Panel Guidelines*" (hereafter referred to as the Review Panel Guidelines). These Review Panel Guidelines were posted on the PCO intranet in August 2014.

Further, HRAC's role as outlined in its original ToR was expanded in April 2014 to also fulfill the mandate of the Review Panel (as a sub-committee of the HRAC) – the Review Panel's ToR was appended to the HRAC ToR. Per the resulting amended HRAC ToR, HRAC is to play a leadership role in the implementation of approved Human Resources programs, policies and strategies, including acting as the Review Panel for the Performance Management Program for employees. During the scope period, HRAC was chaired by the Assistant Secretary to the Cabinet, Security and Intelligence.

As well, PCO's 2014-15 Integrated Business Plan provided an overview of departmental priorities and planned commitments, including key performance management priorities for PCO, as follows:

- Supporting implementation of PCO's PMP by supporting managers/employees (e.g., creating/implementing Action and/or Talent Management Plans);
- Developing standard objectives;
- Establishing mechanisms to track and analyze compliance with the *Directive* (e.g., completion of performance appraisals and mid-year reviews);
- Providing training as required;
- Establishing tracking mechanisms for new supervisors/managers who require mandatory training;
- Supporting the Review Panel discussions on performance cycle cases;
- Ensuring that PCO information is entered in the PSPM App;
- Ensuring results are integrated with Human Resource (HR) plans to support strategic and HR planning; and
- Keeping PCO senior management informed, through the departmental governance structure (i.e., HRAC, Executive Committee), on progress in implementing and applying the *Directive*.

At PCO, the aggregate of the Integrated Business Plan and its stated priorities, along with the related governance structure that has been put in place, collectively form PCO's overall Performance Management Program.

As part of this Review, the project team obtained, analyzed and compared the *Directive*, the Review Panel ToR as annexed to the HRAC ToR, and the Review Panel Guidelines to determine the degree of consistency among these three (3) key governance documents. The results of this comparison indicated that a number of material inconsistencies exist among the documents, including:

- The responsibility for conducting an annual self-assessment is included in the Review Panel ToR but not in the Review Panel Guidelines;
- The frequency of the review of talent management plans (for employees with above average performance ratings) and action plans (for employees in need of support to address performance issues) is inconsistent between the three (3) documents;
- The responsibility for monitoring employee probationary periods and supervisory training exists in the Review Panel Guidelines but not in the Review Panel ToR;
- There is no mention of the Review Panel responsibility for reviewing non-EX performance pay in either the Review Panel ToR or the Review Panel Guidelines; and
- The frequency of meetings, membership of the Review Panel, requirement for maintaining minutes and for providing an annual update on the quality of PCO's performance management exercise to the PCO Executive Committee is mentioned in the Review Panel Guidelines but not in the Review Panel ToR.

Despite these inconsistencies, the HRAC/Review Panel is fulfilling the majority of the Review Panel responsibilities related to the PMP for non-EX employees as outlined in the *Directive*. For example, the review of the PCO's annual performance results (i.e. performance assessment completion rates) is handled during a special Review Panel meeting held for this purpose, while the vast majority of the rest of the Review Panel's responsibilities (i.e. mid-year review) are generally addressed by HRAC as agenda items during regular HRAC meetings throughout the year. Records of Decisions are kept both for HRAC and for distinct Review Panel meetings,

however the Records of Decisions from HRAC meetings which have Review Panel business items on the agenda do not delineate Review Panel business items from regular HRAC business items. Management may wish to consider better delineating Review Panel items from HRAC items in these Records of Decisions as a way of clarifying the business items of each entity and promoting better Member awareness of the distinctions between the two entities.

Interviews with HRAC/Review Panel members (hereafter referred to as Members) revealed that some Members are not clear about which business item is a Review Panel responsibility and which is an HRAC responsibility. Due to Review Panel business items being addressed at regular HRAC meetings, some Members were not clear that the Review Panel is responsible for such things as monitoring mid-year reviews, conducting an annual self-assessment as required by the *Directive*, or monitoring employee probationary periods.

Within this overall structure, information is provided to Members as support for Review Panel items that appear as agenda items at regular HRAC meetings such as information on mid-year and end-of-year performance management results, non-EX level performance pay, employee probationary periods, talent management plans and actions plans for employees.

Further, a summary report which is prepared by Human Resources has been submitted to the Review Panel at the end of the performance management cycles for each of the 2014-15 and 2015-16 fiscal years. Review results indicated the 2014-15 summary report was also provided to the PCO Executive Committee. The Executive Director of Human Resources confirmed that the relevant statistical data was also provided to the PCO Executive Committee for the 2015-16 fiscal year, and further, that the PCO Executive Committee is provided with regular PMP updates on an ongoing basis.

These summary reports contain year-end completion statistics for PCO in comparison generally to the core public administration and more specifically to select other government departments such as the Public Service Commission, Finance Canada and TBS. These reports helps Members understand how PCO's performance information compares to comparable information from these other departments.

In summary, PCO has established a governance and oversight structure over its PMP that features certain key senior level governance committees along with associated governance documents. This structure is effective at ensuring the Clerk is compliant in satisfying the majority of the requirements in the 2014 *Directive*. However, review results revealed that there are material inconsistencies between the three (3) key governance documents that are in place to support this structure, namely the TBS *Directive*, the Review Panel ToR and the Review Panel Guidelines. Review results also revealed that much of the Review Panel business responsibilities are being dealt with as agenda items at regular HRAC meetings. The combination of these factors has resulted in Members not sharing a clear and consistent understanding of the division of HRAC responsibilities and Review Panel responsibilities.

Recommendation #1:

It is recommended that the Executive Director of Human Resources, taking into consideration the *Directive on Performance Management*, should update both the Review Panel's Terms of Reference and the PCO Review Panel Guidelines so that they are each consistent with the *Directive*, that they ensure any Review Panel business conducted at an HRAC meeting is clearly distinguished as such in both the meeting's Agenda and Record of Decisions, and further, that

once so updated, these documents are used to guide PCO's Performance Management Program going forward.

3.2 Performance Management Program Design

It was expected that the Review Panel is monitoring the design of the PCO Performance Management Program for non-EX employees in a regular and timely manner.

As per the TBS *Directive*, PCO's Review Panel is responsible on the Clerk's behalf to conduct an annual self-assessment of the quality of PCO's Performance Management Program. Further, as suggested in the TBS *Guide on Review Panels*, they are also to analyze year-end reports, assess compliance levels, results, trends, etc. and take appropriate action. Interviews with Members indicated they are aware of the requirement to conduct this annual self-assessment. However, PCO's Review Panel has not conducted an annual self-assessment in either of the two fiscal years since the *Directive* came into force.

PCO's Human Resources function did conduct an After-Action exercise at the conclusion of the 2014-15 PMP cycle that reported information specifically on talent management plans; this exercise looked at what worked well, what didn't work well, and what PCO could do differently in subsequent PMP cycles. While this provided information on talent management plans in particular, it did not constitute a self-assessment of the PCO PMP as a whole.

Further to the Review Panel not having conducted these self-assessments, there is no formalized process in place to ensure that any appropriate remedial actions that would arise in response to these annual self-assessments are identified and implemented.

In summary, with PCO's Review Panel not having conducted these annual self-assessments, PCO is not currently complying with the *Directive*. As such, there is an increasing risk over time that the Department is missing out on the opportunity to benefit from these annual self-assessments as they would provide support to management decision making about maintaining and/or improving the quality of PCO's PMP.

Recommendation #2:

It is recommended that the Executive Director of Human Resources implement a consistent approach to conducting the Review Panel's annual self-assessment of the PCO Performance Management Program, including an approach to ensuring that appropriate remedial action is identified and implemented.

3.3 Monitoring

It was expected that management monitors actual performance against expected results.

Under PCO's PMP, information was tabled at the annual Review Panel meetings on talent management plans for employees with above average performance ratings, on action plans for employees requiring support to address performance issues, and on employee probationary periods.

The Review Panel also receives other information which helps it to monitor various aspects of the PCO PMP. As mentioned in section 3.1 above, an annual report (the Year-End Analysis Summary

on the Performance Management Program) was submitted to the Review Panel at the end of the performance management cycles for each of the 2014-15 and the 2015-16 fiscal years. This report provides the Review Panel with year-end completion statistics for PCO in comparison to the core public administration in general and to the Public Service Commission, Finance Canada and TBS departments in particular. The Review Panel also received other reports prepared by HR for 2015-16 including the "PSPM App Completion Report – Employees Subject to Directive" and the "Completion and Rating Distribution Summary Report", each of which supports the Review Panel's understanding of the effectiveness of the PCO PMP.

As previously mentioned, information is also being provided to Members as support for Review Panel items that appear as agenda items at regular HRAC meetings, including information on mid-year and end-of-year performance results, non-EX performance pay, employee probationary periods, and employee talent management plans and actions plans.

Specifically with respect to employee probation periods, information was presented at the Review Panel meetings for both years in scope. Probation cases are tracked by Human Resources outside of the PSPM App - HR maintains a tracking sheet to identify these cases. Approximately six weeks before an employee's probation period is due to expire, HR will contact the manager after which the manager is to provide written confirmation attesting that the individual has successfully completed the probation period. [*]

In summary, with the information that is provided to the combined HRAC/Review Panel either at regular HRAC meetings or at the specific meetings of the Review Panel, this entity is receiving relevant information that helps it with monitoring actual performance against expected results.

3.4 Performance Pay

It was expected that objective and consistently applied criteria for performance pay are documented and followed.

PCO has a small sub-group of excluded/unrepresented non-Ex employees who are eligible for performance pay. Information on the performance of these individuals is provided to the Review Panel in order to support management decision making regarding the overall assessment of performance and the distribution of performance pay.

Review results indicate that when considering non-EX performance pay, managers have received general guidance in the form of assessment criteria and rating scales that are in line with TBS guidance. This guidance is intended to ensure that a consistent approach to performance assessment is used. Managers also received a non-EX Performance Management Program Timetable and Checklist to assist with managing performance pay for excluded/unrepresented employees.

This element of the PMP is one that is addressed at a special HRAC meeting. For this meeting, Members receive a detailed package with the individual's performance agreements. Supervisors with employees who are eligible for performance pay present an overview of their employee's performance at this meeting, along with a proposed performance rating, to assist Members in reaching a consensus and obtaining a final performance rating. A Record of Decisions is prepared on the consensus ratings, which is signed by the HRAC Chair. Information on final ratings is not provided to employees until after they have been discussed at HRAC and approved by the Clerk.

With respect to these consensus HRAC ratings, they are then sent to the Clerk as input to assist Senior Management in allocating the available PCO performance pay budget. After the final ratings are approved and the allocation of the performance pay budget is determined, employees are informed of their final performance ratings after which the performance pay is disbursed.

In summary, controls within the PMP are working well and facilitating the effective management of performance pay for non-EX level employees who are eligible for performance pay.

4.0 Management Response

Management accepts this report and will oversee the implementation of its recommendations.

5.0 Management Action Plan

Review of PCO's Performance Management Framework for Employees

Recommendation	Rating[1]	Response and Planned Actions	Responsibility	Due Date
It is recommended that the Executive Director of Human Resources, taking into consideration the *Directive on Performance Management*, should update both the Review Panel's Terms of Reference and the PCO Review Panel Guidelines so that they are each consistent with the *Directive*, that they ensure any Review Panel business conducted at an HRAC meeting is clearly distinguished as such in both the meeting's Agenda and Record of Decisions, and further, that once so updated, these documents are used to guide PCO's Performance Management Program going forward.	Moderate	Management accepts the recommendation. The Executive Director, Human Resources will update the guidelines and terms of reference documents to ensure consistency with the Directive.	Executive Director – Human Resources	March 31, 2017

[1]

Recommendation Risk Ratings	
High	Immediate management attention is required
Moderate	Timely management attention is warranted
Low	Management attention is warranted

Source: Institute of Internal Auditors Practice Guide: Formulating and Expressing Internal Audit Opinions

Recommendation	Rating[1]	Response and Planned Actions	Responsibility	Due Date
It is recommended that the Executive Director of Human Resources implement a consistent approach to conducting the Review Panel's annual self-assessment of the PCO Performance Management Program, including an approach to ensuring that appropriate remedial action is identified and implemented.	Moderate	Management agrees with the recommendation. The Executive Director, Human Resources will ensure that an annual self-assessment is conducted at the end of the performance cycle This change will be reflected in the updated Review Panel terms of reference. The self-assessment tool will be tabled at an HRAC meeting in early September to inform of the process for the subsequent year.	Executive Director – Human Resources	June 2017 March 31, 2017 September 2017